

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-05 H-02  
L-03 NSC-05 PA-02 PRS-01 SS-15 AGRE-00 /100 W  
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R 011545Z AUG 77  
FM AMEMBASSY MADRID  
TO SECSTATE WASHDC 1219  
INFO AMEMBASSY PARIS

UNCLAS MADRID 5741

USOECD

E.O. 11652: N/A  
TAGS: ECON, SP  
SUBJECT: VICE PRESIDENT EXPLAINS ECONOMIC PROGRAM

1. IN JULY 28 PRESS CONFERENCE, VICE PRESIDENT FOR ECONOMIC AFFAIRS FUENTES QUINTANA SAID SPANISH ECONOMIC SITUATION AT END OF 1977 WOULD BE VERY DIFFICULT SINCE SPECTACULAR SUCCESS IN REDUCING INFLATION AND UNEMPLOYMENT CANNOT BE EXPECTED IN THE SHORT RUN. NEVERTHELESS, HE EXPRESSED OPTIMISM FOR SUCCESS OF AN EFFORT THAT FOR FIRST TIME WILL INVOLVE THE ENTIRE SPANISH PUBLIC, NOT MERELY THE GOVERNMENT. THERE ARE ONLY UNIMPORTANT DIFFERENCES, HE MAINTAINED, BETWEEN GOVERNMENT'S PROGRAM AND THOSE ADVOCATED BY OTHER "RESPONSIBLE POLITICAL GROUPINGS. MORE DETAILED EXPLANATIONS ARE EXPECTED THIS WEEK IN TELEVISION APPEARANCES BB FUENTES QUINTANA AND OTHER CABINET MINISTERS AFTER SPECIFIC MEASURES HAVE BEEN PRESENTED TO PARLIAMENT.

2. IN RESPONSE TO QUESTIONS ON PARTICULAR ASPECTS OF ECONOMIC PROGRAM, FUENTES QUINTANA MADE FOLLOWING POINTS:  
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(A) DEVALUATION NECESSARY TO RESTORE COMPETITIVENESS OF SPANISH EXPORTS AND TO END SPECULATION DRAINING FOREIGN EXCHANGE RESERVES. PESETA WILL NOW BE ALLOWED TO FLOAT.

(B) SOME PRICES WILL INEVITABLY RISE DUE TO DEVALUATION.

PRESENT PRICE CONTROLS ARE ONLY TO PREVENT INCREASES NOT WARRANTED BY DEVALUATION, AND AIM IS TO MOVE TOWARD ELIMINATION OF CONTROLS.

(C) INCOMES CANNOT INCREASE BY MORE THAN INFLATION RATE IF PROGRAM IS TO SUCCEED.

(D) NEGOTIATIONS WITH UNIONS MUST BE CONDUCTED WITH PATIENCE TO ACHIEVE NATIONAL UNDERSTANDING THAT BOTH JOBS AND VIABILITY OF COMPANIES ARE THREATENED BY PRESENT HIGH INFLATION RATE.

(E) UNEMPLOYMENT COULD BE ENDED EASILY WITH MASSIVE INFLATIONARY PUBLIC EXPENDITURES. INSTEAD, GOVERNMENT WILL DAMPEN INFLATIONARY IMPACT OF INCREASED EXPENDITURE BY TAX REFORM AND PUBLIC BOND ISSUES.

(F) FISCAL REFORMS PROPOSED BY THE GOVERNMENT, INCLUDING INSPECTION OF BANK ACCOUNTS, ARE COMMON PRACTICE IN MOST DEVELOPED COUNTRIES.

(G) THE BANKING SYSTEM SHOULD HAVE NO DIFFICULTY IN ADAPTING TO LIBERALIZATION OF INTEREST RATES AND REDUCTION OF OFFICIAL CREDITS.

(H) THE STOCK MARKET IS UNDERSTANDABLY DEPRESSED  
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BECAUSE OF UNCERTAINTY RESULTING FROM ABANDONMENT OF A PATERNALISTIC SYSTEM. THE BANK OF SPAIN WILL NO LONGER INTERVENE TO SUPPORT THE MARKET. BUSINESSMEN AND WORKERS MUST CREATE THE CONFIDENCE IN THEIR ENTERPRISE.

(I) SMALL AND MEDIUM FIRMS WILL SOON BENEFIT FROM A SPECIAL INSTITUTE AND BANK TO PROVIDE FOR THEIR NEEDS.

(J) SPAIN'S ENERGY SITUATION WILL BE DISCUSSED BY PARLIAMENT TO REACH AGREEMENT ON A PLAN MOST SUITED TO REDUCE HEAVY DEPENDENCE ON IMPORTED PETROLEUM.

(K) AGRICULTURE AND LAND SPECULATION ARE IMPORTANT BUT COMPLICATED MATTERS BEING SUBJECTED TO SPECIAL STUDY.

(L) PUBLIC ENTERPRISES ARE A USEFUL INSTRUMENT OF GOVERNMENT POLICY AND WILL BE MAINTAINED WITH IMPROVED CONTROL AND DIRECTION. STABLER

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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